



INTERIM REPORT  
2006

> API GROUP PLC PRODUCES SPECIALISED PRODUCTS FOR USE IN THE MANUFACTURE OF PACKAGING FOR PREMIUM BRANDED GOODS.

> THE GROUP SELLS AND DISTRIBUTES ITS PRODUCTS THROUGHOUT THE WORLD, AND HAS MANUFACTURING LOCATIONS IN THE UNITED KINGDOM, CONTINENTAL EUROPE, NORTH AMERICA AND ASIA-PACIFIC.

> WE ARE COMMITTED TO EXCEEDING OUR CUSTOMERS EXPECTATIONS BY CONTINUOUSLY IMPROVING THE QUALITY AND PERFORMANCE OF OUR PRODUCTS THROUGH PROCESS INNOVATION AND CAPITAL INVESTMENT IN NEW TECHNOLOGY.

#### Key financial information

- > Strong performance and good growth in the Group's global Foils business offset by a marked deterioration in the European Laminates business, where sales were down substantially in the first half.
- > Operating profit before exceptional items for the Group's continuing operations reduced to break-even (2005: £1.4m profit) and Group sales down slightly to £51.1m (2005: £52.4m), both as a result of the deterioration in Laminates.
- > Loss per share before exceptional items of 4.6p (2005: 2.5p loss).
- > Capital expenditure on long-term projects contributed to higher net borrowings.
- > Performance expected to improve in seasonally stronger second half.

#### Contents

01-03	Interim Report to Shareholders
04	Group Income Statement
05	Group Balance Sheet
06	Group Cash Flow Statement
07	Group Statement of Recognised Income and Expenditure
08-24	Notes 1-10
25	Independent Review Report

In the last eighteen months, we have successfully withdrawn from loss-making, non-core activities and have focused API on its Foils and Laminates businesses. The Group is now positioned as a focused manufacturer of specialised packaging and security products for the tobacco, drinks, food, luxury and consumer goods sectors.

The trading results for the first half of 2006, while still disappointing in absolute terms, reflect the progress that has been made with the key strategic initiatives outlined in previous reports and are consistent with the comments that we made in our AGM statement in February. In Foils, new products have been brought to market and are performing strongly, and we have made good progress with our attempts to broaden our distribution base in Europe and improve the efficiency of our manufacturing operations. We are particularly pleased with the strong financial performance of our US, Chinese and Holographic foils businesses, which all achieved both good sales growth and improved margins. In contrast, our European foils business continued to experience tough competition and struggled to improve its financial performance despite making good progress operationally, while the Laminates business had a very difficult first half, with sales down by 22% compared with the same period in the previous year due to reduced demand and soft market conditions.

During 2005 and 2006, we have committed to a number of capital investment and business development initiatives which are expected to deliver substantial benefits to the Group in the medium to long-term. These include upgrading and improving our core foils product range, the expansion and broadening of our foil distribution capabilities in Continental Europe, the relocation and substantial expansion of our foil manufacturing facility in China and the modernisation of our manufacturing capabilities in the US. Good progress has been made with all of these initiatives and most are ahead of plan, although each requires substantial capital expenditure, the full benefits of which will not be realised for some time.

#### Review of Results

The Group reported a loss before taxation and net finance costs for the six months ended 31 March 2006 of £0.6m (£7.6m loss) comprising:

- > Operating loss from continuing operations of £0.5m (£1.3m profit)

- > Operating loss from discontinued operations £0.1m (£8.9m loss)

During the period, £0.4m of exceptional items were charged against the operating result of the continuing operations, relating principally to the cost of restructuring in Laminates and the foils businesses in Europe.

The deterioration in operating profit from continuing operations was principally due to the poor performance of the Laminates business, which reported an operating loss before exceptional items for the period of £0.7m, compared with an operating profit of £1.0m for the same period of the previous year, on sales down by 22%. In contrast the Foils businesses performed well, achieving a 12% improvement in sales and a 13% rise in operating profit before exceptional items, reflecting strong performances in the US, China and Holographics.

#### Review of Operations

The operating profit before exceptional items reduced to break-even (£1.4m profit) due to a £1.7m reduction in profits in the Laminates business to a loss of £0.7m. In contrast, Foils performed well, improving by £0.2m to a profit of £1.7m despite the fact that some of the improvement achieved in the US, China and Holographics was offset by a weakening of results from the European foils business. Excluding the impact of exceptional charges, central costs were virtually unchanged for the period at £1.0m.

The US foils business continues to focus on revenue growth and profit improvement and performed well. Sales grew by 22% and operating margins improved dramatically following a strong resurgence in demand for metallic ink products and increased penetration of the greetings card sector. We have successfully introduced volume products manufactured in our Chinese facility into the US market and are also evaluating options for expanding capacity in the US, with a view to aggressively targeting opportunities that we believe exist in the general cartons and label sectors where we are currently under-represented. During 2006, it was necessary to invest heavily in upgrading the environmental management systems in each of our facilities to achieve full compliance with more stringent emissions regulations and this in part accounted for the high level of capital expenditure during the period.

In the Asia-Pacific region, sales increased by 4% and profits improved by 19% following a recovery in demand for holographic products in the tobacco sector and strong growth in sales of new products and sales into new markets in the Chinese domestic market. Exports also grew as a proportion of total sales, with an increase in the value of product sold to other API Group companies, together with particularly strong growth in India and Russia. The relocation and expansion of the Chinese manufacturing facility is well underway, with the land purchase completed and construction expected to commence during the summer months. Orders have already been placed for certain major items of equipment and we are evaluating options for further investment in additional capacity to support growth in the US and European markets.

In Europe, foils sales increased by 9%, although this was largely due to the acquisition of MEPA, a distributor in Germany, in October 2005. Underlying sales were virtually unchanged, reflecting good growth in sales of holographic products offset by a decline in sales of metallic and pigment products. The Holographics business benefited from the introduction of a number of new products and advances in manufacturing technology that have enabled us to improve our competitive position and to achieve a competitive advantage in certain markets. This has translated into increased sales and significantly better margins. In contrast, trading conditions for the general foils business have remained difficult and despite the successful launch of a new range of versatile, general purpose products imported from China, weak demand and intense price competition contributed to a significant reduction in profits earned from non-holographic products.

The Laminates business experienced very difficult trading conditions during the first half and reported poor results. Sales were down by 22% and an operating loss of £0.7m was reported compared with a profit of £1.0m in the previous year. A number of major customers reduced or deferred orders and the level of high-margin promotional activity was significantly lower than in previous years. The demand from other sectors, such as food, pharmaceutical and consumer products, was also relatively weak.

In response to the downturn in activity in Laminates, we reduced the workforce in our UK manufacturing facility by over 12%. Further action to reduce fixed costs will be taken during the second half and we hope to achieve improvement in gross margins through a renewed focus on productivity improvements and lower waste levels. We have also redoubled our efforts to explore options for production in lower cost economies such as those in Eastern Europe.

On a more positive note, average selling prices in the core drinks and tobacco sectors held up well despite pressure for further reductions from major customers, and underlying demand for these and other products remains robust. We have seen an increase in order volume in the second half of the year, although not to the levels experienced in 2004 and 2005.

#### Discontinued Businesses

The operating loss from discontinued businesses of £0.1m relates principally to the Group's holographic origination activity in the US. As part of our long-term strategy for the development of the Holographics business, a decision was taken earlier this year to place increased reliance on third-party specialists and to concentrate our own design and origination activities in the UK.

#### Finance

##### Cash Flow

The Group's net cash outflow from operating activities excluding taxation in the period was £2.4m (£0.8m inflow). Working capital increased by £3.2m (£1.5m increase) due principally to a decrease in trade and other payables. Capital expenditure of £2.7m (£2.4m) was in-line with expectations, but was ahead of depreciation of £1.8m (£2.4m).

During the period, the Group completed investments in a number of major projects including a new large-format metalliser for the US foils business, additional wide-web embossing capacity for the Holographics business and upgrades to environmental management systems in the US. In addition, we continued to invest in the implementation of the Oracle based ERP system which is now in use within the Laminates business and will be rolled out in the Foils business during 2006 and 2007.

Returns on investment and servicing of finance of £0.8m (£1.4m) included bank interest and minority dividends. The Group paid interest of £0.8m (£1.0m) compared to the interest charge shown in the income statement of £0.7m (£0.8m).

#### Borrowings

Net borrowings increased by £6.0m during the period to £12.7m and represented gearing of 46% at 31 March 2006, compared with 24% at 30 September 2005. The increase in borrowings was partly attributable to the normal seasonal fluctuations in working capital. However, the loss for the period of £1.7m and the relatively high level of capital expenditure also impacted the net borrowings position.

The Group has recently renegotiated both its UK and US bank facilities to ensure that adequate funds are available to support its medium and long-term investment plans and currently has committed facilities of £19.0m and uncommitted facilities of £7.9m.

Shareholders' funds at 31 March 2006 were £21.8m. Net assets per share were equivalent to 63p per share.

#### IFRS

All listed companies in the European Union are required to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. The adoption of IFRS has been reflected in the Group's interim statement for the period ended 31 March 2006 and the comparative figures for the six months ended 31 March 2005 and the year ended 30 September 2005 have been appropriately restated. Although the adoption of IFRS has impacted the reported results, the underlying performance of the business has not been affected by these changes.

#### People

Since the Annual General Meeting held on 1 February 2006, Brian Birkenhead and Martin O'Connell have joined the Board as Non-Executive Directors. Brian Birkenhead, who is an independent Non-Executive and will also Chair the Audit Committee, is a knowledgeable and experienced finance professional whose previous positions include Finance Director of National Power plc, Director of Finance of Johnson Matthey plc and Chairman of The Hundred Group of Finance Directors. Martin O'Connell recently retired from

a senior position with Chesapeake Corporation, one of the world's leading packaging companies, where he had specific responsibility for businesses targeting the luxury and premium-branded consumer goods sectors, including Field Packaging, one of the Group's major customers. The Board is sure that both will be able to make a significant contribution to the future development of the Group.

#### Outlook

The outlook for the remainder of the year remains mixed. We continue to see strong performance from our Foils businesses in the US and Asia-Pacific and are confident of further improvement in these areas. We are also optimistic that there will be some recovery in the performance of the European businesses during the second half, although the extent remains uncertain. While order intake in the Laminates business has improved recently due to increased activity from major customers, trading conditions remain challenging.

The Group is focused on strengthening its position in its core Foils and Laminates businesses. We have committed to a number of significant strategic initiatives, some of which are already beginning to have a positive impact on earnings, while others are progressing ahead of or in line with expectations and are expected to yield considerable benefits in the future. We are working to address the performance issues in Laminates and in the European foils businesses and despite the difficult conditions encountered by certain of our European businesses, we remain confident that the performance of the Group will improve in the seasonally stronger second half.

For and on behalf of API Group plc

Richard Wright  
Non-Executive Chairman

David Walton  
Group Chief Executive

1 June 2006

## GROUP INCOME STATEMENT

for the six months ended 31 March 2006

	Note	Unaudited 6 months to 31 March 2006 £'000	Unaudited 6 months to 31 March 2005 £'000	Audited 12 months to 30 September 2005 £'000
<b>Continuing operations</b>				
Revenue	3	51,118	52,445	105,570
Cost of sales		(40,653)	(41,116)	(82,767)
Gross profit		10,465	11,329	22,803
Other operating costs		(10,488)	(9,881)	(19,241)
<b>Operating (loss) / profit before exceptional items</b>	3	(23)	1,448	3,562
<i>Exceptional items:</i>				
Restructuring	4	(443)	–	(226)
Professional expenses incurred in respect of takeover approach	4	–	(158)	(204)
<b>Operating (loss) / profit from continuing operations</b>		(466)	1,290	3,132
Finance revenue		51	59	117
Finance costs		(772)	(846)	(1,524)
Other finance income / (expense) - pensions		12	(96)	(142)
		(709)	(883)	(1,549)
<b>(Loss) / profit on continuing activities before taxation</b>		(1,175)	407	1,583
Taxation - UK	6	(149)	166	(3)
- Overseas	6	(292)	(238)	(501)
<b>(Loss) / profit from continuing operations</b>		(1,616)	335	1,079
<b>Discontinued operations</b>				
Loss from discontinued operations	7	(103)	(8,858)	(10,149)
<b>Loss for the period</b>		(1,719)	(8,523)	(9,070)
<b>Attributable to:</b>				
Profit attributable to minority equity interests		318	267	574
Loss attributable to equity holders of the parent		(2,037)	(8,790)	(9,644)
<b>Total loss for the period</b>		(1,719)	(8,523)	(9,070)
<b>Earnings per share (pence)</b>				
Basic (loss) / earnings per share from continuing operations	5	(5.6)	0.2	1.5
Diluted (loss) / earnings per share from continuing operations	5	(5.5)	0.2	1.5
Basic loss per share from loss for the period	5	(5.9)	(26.4)	(28.7)
Diluted loss per share from loss for the period	5	(5.8)	(26.1)	(28.3)

	Note	Unaudited 31 March 2006 £'000	Unaudited 31 March 2005 £'000	Audited 30 September 2005 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property plant and equipment		29,810	28,210	28,692
Intangible assets		6,225	5,517	6,225
Deferred tax asset on defined benefit pension plan		2,760	3,896	3,151
		<b>38,795</b>	<b>37,623</b>	<b>38,068</b>
<b>Current assets</b>				
Inventories		13,694	13,372	12,869
Trade and other receivables		19,676	21,317	19,824
Cash and cash equivalents		7,326	7,839	10,396
		<b>40,696</b>	<b>42,528</b>	<b>43,089</b>
<b>Total assets</b>		<b>79,491</b>	<b>80,151</b>	<b>81,157</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities		1,264	3,350	2,102
Trade and other payables		20,864	24,619	23,306
Current tax liabilities		334	267	327
Provisions		337	756	593
		<b>22,799</b>	<b>28,992</b>	<b>26,328</b>
<b>Non-current liabilities</b>				
Financial liabilities		18,742	10,897	14,980
Deferred tax liabilities		940	727	940
Other non-current liabilities		–	239	–
Provisions		103	126	109
Defined benefit pension plan deficit		9,199	12,988	10,503
		<b>28,984</b>	<b>24,977</b>	<b>26,532</b>
<b>Total liabilities</b>		<b>51,783</b>	<b>53,969</b>	<b>52,860</b>
<b>Net assets</b>		<b>27,708</b>	<b>26,182</b>	<b>28,297</b>
<b>Equity</b>				
Called up share capital		8,612	8,494	8,592
Share premium		244	51	211
Capital redemption reserve		549	549	549
ESOP reserve		(251)	(2,432)	(251)
Foreign exchange reserve		659	(796)	439
Retained earnings		11,964	14,754	13,297
Total shareholders' equity	8	21,777	20,620	22,837
Minority interest in equity	8	5,931	5,562	5,460
<b>Total equity</b>		<b>27,708</b>	<b>26,182</b>	<b>28,297</b>

## GROUP CASH FLOW STATEMENT

for the six months ended 31 March 2006

	Unaudited 6 months to 31 March 2006 £'000	Unaudited 6 months to 31 March 2005 £'000	Audited 12 months to 30 September 2005 £'000
<b>Operating activities</b>			
Group operating (loss) / profit	(466)	1,290	3,132
<i>Adjustments to reconcile group operating (loss) / profit to net cash flow from operating activities</i>			
Loss before tax from discontinued operations	(103)	(1,029)	(1,974)
Depreciation and impairment of property, plant and equipment	1,780	2,387	4,412
(Profit) / loss on disposal of property, plant and equipment	(11)	(25)	149
Share-based payments	74	30	87
Difference between pension contributions paid and amounts recognised in the income statement	(432)	(383)	(378)
Increase in inventories	(727)	(2,470)	(892)
Decrease in trade and other receivables	244	4,930	6,043
Decrease in trade and other payables	(2,501)	(3,980)	(6,424)
Movement in provisions	(261)	–	(590)
Cash (used in) / generated from operations	(2,403)	750	3,565
Income taxes paid	(294)	(400)	(563)
<b>Net cash flow from operating activities</b>	<b>(2,697)</b>	<b>350</b>	<b>3,002</b>
<b>Investing activities</b>			
Interest received	51	59	117
Purchase of property, plant and equipment	(2,681)	(2,367)	(4,806)
Sale of property, plant and equipment	–	52	50
Purchase of subsidiary undertakings	–	–	(1,069)
Sale of subsidiary undertakings	–	7,701	8,033
<b>Net cash flow from investing activities</b>	<b>(2,630)</b>	<b>5,445</b>	<b>2,325</b>
<b>Financing activities</b>			
Interest paid	(822)	(1,061)	(1,483)
Dividends paid to minority interests	–	(444)	(788)
Proceeds from share issues	53	82	340
Cash received from exercise of share options	–	81	347
New borrowings	2,906	–	–
Repayment of borrowings	–	(8,037)	(5,310)
<b>Net cash flow from financing activities</b>	<b>2,137</b>	<b>(9,379)</b>	<b>(6,894)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(3,190)</b>	<b>(3,584)</b>	<b>(1,567)</b>
Effect of exchange rates on cash and cash equivalents	120	(296)	244
Cash and cash equivalents at the beginning of the period	10,396	11,719	11,719
<b>Cash and cash equivalents at the end of the period</b>	<b>7,326</b>	<b>7,839</b>	<b>10,396</b>

**GROUP STATEMENT OF RECOGNISED  
INCOME AND EXPENDITURE**

for the six months ended 31 March 2006

	Unaudited 6 months to 31 March 2006 £'000	Unaudited 6 months to 31 March 2005 £'000	Audited 12 months to 30 September 2005 £'000
Exchange differences on retranslation of foreign operations	220	(796)	439
Actuarial gains / (losses) on defined benefit pension plans	872	(43)	1,920
Tax on actuarial gains on defined benefit pension plans	(242)	–	(708)
Net income / (expense) recognised directly in equity	850	(839)	1,651
Loss for the period	(1,719)	(8,523)	(9,070)
<b>Total recognised income and expense relating to the period</b>	<b>(869)</b>	<b>(9,362)</b>	<b>(7,419)</b>
Attributable to:			
Equity holders of the parent	(1,187)	(9,629)	(7,993)
Minority equity interests	318	267	574
	<b>(869)</b>	<b>(9,362)</b>	<b>(7,419)</b>

## 1. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

### Authorisation of financial statements

The consolidated financial statements of API Group plc for the six months ended 31 March 2006 were authorised for issue in accordance with a resolution of the directors on 24 May 2006. API Group plc is a public limited company incorporated in the United Kingdom whose shares are publicly traded.

### Basis of preparation

The Group's first full financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS") will be for the year ending 30 September 2006. These interim financial statements, being for part of that period, reflect the provisions of IFRS 1 'First-time Adoption of IFRS'. The Group's interim financial statements have been prepared in accordance with IFRS as adopted by the European Union as they apply to the financial statements of the Group for the period ended 31 March 2006. The IFRS standards that will be applicable at 30 September 2006 including those that will be applicable on an optional basis are not known with certainty at the time of preparing these interim financial statements. The Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK groups.

The policies set out in note 2 have been consistently applied to all years presented. The Group has applied optional exemptions available to it under IFRS 1. These exemptions are described in note 10.

The Group's Financial Statements and unaudited interim results were prepared under UK Generally Accepted Accounting Principles ("UK GAAP") until 30 September 2005. UK GAAP differs in some areas from IFRS. In preparing these interim financial statements, it has been necessary to amend certain accounting and valuation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of prior periods have also been restated to reflect these adjustments. The effect of the transition from UK GAAP to IFRS on the Group's equity and its net income is provided in note 10.

These consolidated interim financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The financial information contained in this interim statement is unaudited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The audited UK GAAP annual financial statements for the year ended 30 September 2005, which represent the statutory accounts for that year, and on which the auditors gave an unqualified opinion, have been filed with the Registrar of Companies.

## 2. ACCOUNTING POLICIES

### Changes in accounting policies

The Group has adopted those standards designed to form the 'stable platform' mandatory for financial years beginning on or after 1 January 2005. Accounting policies detailed below reflect the adjustments arising as a result of adopting IFRS.

### Basis of consolidation

The consolidated accounts comprise those of the parent company and its subsidiary undertakings. The results for the period ended 31 March 2006 are included in the Group results in full except where control of subsidiary undertakings is acquired or sold during the year, when results are included from or to the date of acquisition or sale.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Minority interest represents the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separate from parent shareholders' equity.

### Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Between 5 October 1997 and 1 October 2004 goodwill was amortised over its estimated useful life. Such amortisation ceased on 30 September 2004. The Group's policy before 5 October 1997 was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves.

For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

#### Revenue recognition

Revenue represents amounts invoiced to third parties excluding value added taxes and represents net invoice value less estimated rebates, returns and settlement discounts. It is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

#### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The Group's policy is to write off the difference between the cost of each item of property, plant and equipment and its residual value systematically over its estimated useful life. Annual reviews are made of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Under this policy it becomes impractical to indicate average asset lives exactly but the indicative ranges are as follows:

- > Freehold buildings and long leasehold property  
14 to 50 years;
- > Plant 5 to 20 years;
- > Vehicles 4 years; and
- > Furniture and equipment  
3 to 10 years.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Borrowing costs are not capitalised.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

#### Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

#### Intangible assets

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired with a business acquisition are capitalised at fair value at the date of acquisition if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. The useful lives of intangible assets are assessed as finite or indefinite.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against income as it is incurred.

The carrying values of intangible assets are reviewed annually for impairment or if events or changes in circumstances indicate the carrying value may not be recoverable.

#### Research and development

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently, when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

### Leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

### Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on a first in first out basis. Cost of work in progress and finished goods comprises the cost of raw materials, direct labour and overheads attributable to the production of stock. Net realisable value comprises the estimated selling value less selling costs.

### Trade and other receivables

Trade and other receivables are recognised and carried at original invoice value less an allowance for any amounts which may not be collectible. Should an amount become uncollectible, it is written off to the income statement in the period in which it is identified.

### Cash and cash equivalents

Cash and cash equivalents principally comprise funds held with banks and other financial institutions with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Financial liabilities - Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost. Gains or losses are recognised in the income statement as finance income and finance expense.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- > where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- > in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- > deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

#### Pensions and other post-retirement benefits

The cost of providing benefits under the defined benefit pension plans is determined separately for each plan using the projected unit credit method, which attributes entitlements to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in the future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit pension cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense.

Actuarial gains and losses are recognised in full in the statement of recognised income and expenditure in the period in which they occur.

The defined benefit pension liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet

recognised and less fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

#### Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using the Monte-Carlo pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

Expense is recognised for all awards irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

#### Foreign currencies

The assets and liabilities of overseas subsidiary undertakings are translated into Sterling at rates ruling at the balance sheet date and trading items at the average rate for the period. The exchange differences arising on the translation of the financial statements of foreign subsidiary undertakings are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All translation differences are taken to the income statement.

### 3. SEGMENTAL ANALYSIS

**Primary reporting format - geographic segments:** At 31 March 2006, the Group is organised into three distinct independently managed geographic segments, Europe, North America and Asia Pacific. The following tables present revenue and profit information for these segments.

By Geographical segment	6 months to 31 March 2006 £'000 Continuing	6 months to 31 March 2006 £'000 Discontinued	6 months to 31 March 2006 £'000 Total
<b>Total revenue by origin</b>			
Europe	36,643	–	36,643
North America	12,703	122	12,825
Asia Pacific	6,774	–	6,774
	56,120	122	56,242
<b>Inter-segmental sales</b>			
Europe	3,683	–	3,683
North America	334	–	334
Asia Pacific	985	–	985
	5,002	–	5,002
<b>External sales by origin</b>			
Europe	32,960	–	32,960
North America	12,369	122	12,491
Asia Pacific	5,789	–	5,789
	51,118	122	51,240
<b>External sales by destination</b>			
UK	16,793	14	16,807
Continental Europe	10,778	–	10,778
Americas	14,402	99	14,501
Asia Pacific	7,071	9	7,080
Rest of World	2,074	–	2,074
	51,118	122	51,240
<b>Profit / (loss) from operations</b>			
Europe			
before exceptional items	(285)	–	(285)
exceptional items	(399)	–	(399)
	(684)	–	(684)
North America			
before exceptional items	537	(98)	439
exceptional items	–	(5)	(5)
	537	(103)	434
Asia Pacific			
before exceptional items	736	–	736
exceptional items	–	–	–
	736	–	736
Central costs			
before exceptional items	(1,011)	–	(1,011)
exceptional items	(44)	–	(44)
	(1,055)	–	(1,055)
<b>Total loss from operations before exceptional items</b>	(23)	(98)	(121)
<b>Total loss from operations</b>	(466)	(103)	(569)
<b>Loss on ordinary operations before interest and taxation</b>	(466)	(103)	(569)

3. SEGMENTAL ANALYSIS (continued)	6 months to 31 March 2005 £'000 Continuing	6 months to 31 March 2005 £'000 Discontinued	6 months to 31 March 2005 £'000 Total
By Geographical segment			
<b>Total revenue by origin</b>			
Europe	40,368	13,278	53,646
North America	10,593	149	10,742
Asia Pacific	6,173	6	6,179
	57,134	13,433	70,567
<b>Inter-segmental sales</b>			
Europe	3,658	647	4,305
North America	418	14	432
Asia Pacific	613	–	613
	4,689	661	5,350
<b>External sales by origin</b>			
Europe	36,710	12,631	49,341
North America	10,175	135	10,310
Asia Pacific	5,560	6	5,566
	52,445	12,772	65,217
<b>External sales by destination</b>			
UK	19,833	6,007	25,840
Continental Europe	13,899	5,474	19,373
Americas	10,652	197	10,849
Asia Pacific	6,446	1,046	7,492
Rest of World	1,615	48	1,663
	52,445	12,772	65,217
<b>Profit / (loss) from operations</b>			
Europe			
before exceptional items	1,817	(951)	866
exceptional items	–	–	–
	1,817	(951)	866
North America			
before exceptional items	54	(78)	(24)
exceptional items	–	–	–
	54	(78)	(24)
Asia Pacific			
before exceptional items	619	–	619
exceptional items	–	–	–
	619	–	619
Central costs			
before exceptional items	(1,042)	–	(1,042)
exceptional items	(158)	–	(158)
	(1,200)	–	(1,200)
<b>Total profit / (loss) from operations before exceptional items</b>	1,448	(1,029)	419
<b>Total profit / (loss) from operations</b>	1,290	(1,029)	261
Share of operating loss in joint venture	–	(55)	(55)
	1,290	(1,084)	206
Loss on disposal of discontinued operations	–	(7,774)	(7,774)
<b>Profit / (loss) on ordinary operations before interest and taxation</b>	1,290	(8,858)	(7,568)

## 3. SEGMENTAL ANALYSIS (continued)

By Geographical segment	12 months to	12 months to	12 months to
	30 September 2005 £'000 Continuing	30 September 2005 £'000 Discontinued	30 September 2005 £'000 Total
<b>Total revenue by origin</b>			
Europe	79,220	13,278	92,498
North America	22,806	181	22,987
Asia Pacific	12,614	6	12,620
	114,640	13,465	128,105
<b>Inter-segmental sales</b>			
Europe	7,007	647	7,654
North America	933	38	971
Asia Pacific	1,130	–	1,130
	9,070	685	9,755
<b>External sales by origin</b>			
Europe	72,213	12,631	84,844
North America	21,873	143	22,016
Asia Pacific	11,484	6	11,490
	105,570	12,780	118,350
<b>External sales by destination</b>			
UK	40,460	6,024	46,484
Continental Europe	26,516	5,474	31,990
Americas	22,205	181	22,386
Asia Pacific	12,498	1,053	13,551
Rest of World	3,891	48	3,939
	105,570	12,780	118,350
<b>Profit / (loss) from operations</b>			
Europe			
before exceptional items	4,005	(1,213)	2,792
exceptional items	20	46	66
	4,025	(1,167)	2,858
North America			
before exceptional items	430	(307)	123
exceptional items	–	(500)	(500)
	430	(807)	(377)
Asia Pacific			
before exceptional items	1,066	–	1,066
exceptional items	(36)	–	(36)
	1,030	–	1,030
Central costs			
before exceptional items	(1,939)	–	(1,939)
exceptional items	(414)	–	(414)
	(2,353)	–	(2,353)
<b>Total profit / (loss) from operations before exceptional items</b>	3,562	(1,520)	2,042
<b>Total profit / (loss) from operations</b>	3,132	(1,974)	1,158
Share of operating loss in joint venture	–	(55)	(55)
	3,132	(2,029)	1,103
Loss on disposal of discontinued operations	–	(8,120)	(8,120)
<b>Profit / (loss) on ordinary operations before interest and taxation</b>	3,132	(10,149)	(7,017)

**4. OPERATING (LOSS) / PROFIT**

	6 months to 31 March 2006 £'000	6 months to 31 March 2005 £'000	12 months to 30 September 2005 £'000
Exceptional items charged against operating (loss) / profit comprise			
Redundancy and relocation	412	–	390
London office closure costs	31	–	82
Release of provision for legal claims	–	–	(246)
Professional expenses incurred in respect of takeover approach	–	158	204
	<b>443</b>	<b>158</b>	<b>430</b>

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Group and which need to be disclosed by virtue of their size or incidence.

**5. EARNINGS PER SHARE**

	6 months to 31 March 2006 £'000	6 months to 31 March 2005 £'000	12 months to 30 September 2005 £'000
<b>Continuing operations</b>			
(Loss) / profit attributable to shareholders	(1,934)	68	505
Add exceptional items (post tax)	443	158	430
Adjusted (loss) / profit attributable to shareholders	(1,491)	226	935
<b>Discontinued operations</b>			
Loss attributable to shareholders	(103)	(8,858)	(10,149)
Add loss on disposal of discontinued operations (post tax)	–	7,774	8,120
Add exceptional items (post tax)	5	–	454
Adjusted loss attributable to shareholders	(98)	(1,084)	(1,575)
Basic weighted average ordinary shares in issue	34,327,701	33,273,392	33,628,497
Dilutive effect of employee share plans	559,801	440,789	634,603
Diluted weighted average ordinary shares	34,887,502	33,714,181	34,263,100

**Continuing operations**

Basic (loss) / earnings per share	(5.6)	0.2	1.5
Adjustment	1.3	0.5	1.3
Adjusted basic (loss) / earnings per share	(4.3)	0.7	2.8
Diluted (loss) / earnings per share	(5.5)	0.2	1.5

**Discontinued operations**

Basic loss per share	(0.3)	(26.6)	(30.2)
Adjustment	–	23.4	25.5
Adjusted basic loss per share	(0.3)	(3.2)	(4.7)
Diluted loss per share	(0.3)	(26.3)	(29.8)

The weighted average number of shares excludes the shares owned by the API Group plc No.2 Employee Benefit Trust.

Management consider that EPS calculated on the adjusted loss is an appropriate and consistent measure of the Group's performance.

## 6. TAXATION

	6 months to 31 March 2006 £'000	6 months to 31 March 2005 £'000	12 months to 30 September 2005 £'000
<b>Current income tax</b>			
Foreign tax	(292)	(238)	(501)
Adjustment to previous year	–	200	281
<b>Total current income tax</b>	<b>(292)</b>	<b>(38)</b>	<b>(220)</b>
<b>Deferred tax</b>			
Origination and reversal of timing differences	(149)	(34)	(397)
Adjustment to previous year	–	–	113
<b>Total deferred tax</b>	<b>(149)</b>	<b>(34)</b>	<b>(284)</b>
<b>Tax charge in the income statement</b>	<b>(441)</b>	<b>(72)</b>	<b>(504)</b>

## 7. DISCONTINUED OPERATIONS

	6 months to 31 March 2006 £'000	6 months to 31 March 2005 £'000	12 months to 30 September 2005 £'000
Revenue	122	12,772	12,780
Cost of sales	(197)	(11,783)	(12,021)
Gross (loss) / profit	(75)	989	759
Other operating costs	(23)	(2,018)	(2,279)
<b>Operating loss before exceptional items</b>	<b>(98)</b>	<b>(1,029)</b>	<b>(1,520)</b>
Exceptional items	(5)	–	(454)
<b>Operating loss and loss after tax for the period for discontinued operations</b>	<b>(103)</b>	<b>(1,029)</b>	<b>(1,974)</b>
Share of operating loss in joint venture	–	(55)	(55)
<b>Total operating loss: group and share of joint venture</b>	<b>(103)</b>	<b>(1,084)</b>	<b>(2,029)</b>
Loss on disposal of discontinued operations	–	(7,774)	(8,120)
<b>Loss for the period from discontinued operations</b>	<b>(103)</b>	<b>(8,858)</b>	<b>(10,149)</b>

Discontinued operations for the six months ended 31 March 2006 represent the results of Chromagem, a subsidiary which ceased trading during the period. Discontinued operations in prior periods include the results of the Metallised Paper division and the Converted Products division. These divisions were sold on 8 December 2004 and 20 January 2005 respectively.

## 8. CHANGES IN EQUITY

	Shareholders' equity £'000	Minority interest £'000	Total equity £'000
<b>Balance at 1 October 2004</b>	<b>30,056</b>	<b>5,509</b>	<b>35,565</b>
Total recognised income and expense for the period before foreign currency translation differences	(8,833)	267	(8,566)
Foreign currency translation differences	(796)	(214)	(1,010)
Exercise of employee share options	81	–	81
New shares issued net of costs	82	–	82
Share based payment	30	–	30
<b>Balance at 31 March 2005</b>	<b>20,620</b>	<b>5,562</b>	<b>26,182</b>
Total recognised income and expense for the period before foreign currency translation differences	401	307	708
Foreign currency translation differences	1,235	379	1,614
Dividends	–	(788)	(788)
Exercise of employee share options	266	–	266
New shares issued net of costs	258	–	258
Share based payment	57	–	57
<b>Balance at 30 September 2005</b>	<b>22,837</b>	<b>5,460</b>	<b>28,297</b>
Total recognised income and expense for the period before foreign currency translation differences	(1,407)	318	(1,089)
Foreign currency translation differences	220	153	373
New shares issued net of costs	53	–	53
Share based payment	74	–	74
<b>Balance at 31 March 2006</b>	<b>21,777</b>	<b>5,931</b>	<b>27,708</b>

## 9. CONTINGENT LIABILITIES

The consideration for the sale of the Converted Products Division includes a deferred element totalling £2.0 million.

It is payable in January 2007 and, should the purchaser default, it is guaranteed by an independent insurance company.

A potential claim has recently been received from the purchasers of the Converted Products Division, Tri-Q Limited which may affect the recoverability of £750,000 of the deferred consideration. The Directors consider that any claim will be unsuccessful and will robustly defend any legal action. Legal advice obtained indicates that a successful outcome is probable and consequently, no provision against the recoverability of the deferred consideration has been made in the accounts.

## 10. TRANSITION TO IFRS

### 10.1 Application of IFRS 1 - First Time Adoption of IFRS

The Group's financial statements for the year ending 30 September 2006 will be the first annual financial statements that comply with IFRS. These interim financial statements have been prepared as described in note 1. The Group has applied IFRS 1 in preparing these interim financial statements. The Group's transition date is 1 October 2004.

In preparing these interim financial statements in accordance with IFRS 1, the Group has taken advantage of certain of the optional exemptions from full retrospective application of IFRS, as detailed below.

- (a) Business combinations - business combinations that occurred prior to the transition to IFRS have not been restated and the Group ceased amortisation of goodwill from 1 October 2004. From 1 October 2004 onwards, goodwill is tested annually for impairment as well as when there are indications of impairment;
- (b) Fair value or revaluation as deemed cost - revalued property, plant and equipment will be treated as deemed cost at the transition date;
- (c) Cumulative translation differences - cumulative foreign exchange translation differences have been set to zero as at the date of transition to IFRS;
- (d) Share based payments - IFRS 2 has only been applied to share based payments granted after 7 November 2002 that had not vested on or before 1 January 2005;
- (e) Employee benefits - cumulative actuarial gains and losses on defined benefit pension plans at the transition date have been recognised and a corresponding adjustment has been made to equity;
- (f) Financial instruments - IAS 32 and IAS 39 came into effect on 1 January 2005. The Group has elected to take the exemption under IFRS 1 not to restate comparative information in respect of these standards. Financial instruments included in the 2005 comparatives are still accounted for under UK GAAP, whereas they are accounted for in accordance with IFRS in the 2006 results. The adoption of IAS 32 and IAS 39 did not have any material financial impact and therefore no adjustment was required.

### 10.2 Impact of IFRS and reconciliation to UK GAAP

The impact of IFRS on net income already reported under UK GAAP for the six months ended 31 March 2005 and the year ended 30 September 2005 is set out in note 10.3 and 10.4 respectively. The impact on equity at the transition date, 31 March 2005 and 30 September 2005 is shown in notes 10.5 to 10.7. The adjustments referred to in notes 10.3 to 10.7 reconciling UK GAAP to IFRS are described below.

The transition from UK GAAP to IFRS has no effect upon reported cash flows generated by the Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities - operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

#### a) Goodwill and intangible assets

Under IFRS, goodwill on acquisitions is no longer amortised and is subject to an annual impairment review. The net effect on the results is to remove the amortisation of goodwill charged to the income statement and increase equity by a corresponding amount. The reduction in the charge and increase in equity in respect of goodwill in the six months ended 31 March 2005 was £204,000 and £407,000 in year ended 30 September 2005. No impairment was identified at the transition date or at 30 September 2005.

The exceptional item reported under UK GAAP in the year ended 30 September 2005 relating to the disposal of Converted Products division included £7.9m of goodwill previously written off directly to reserves and transferred to the profit and loss account as part of the calculation of loss on disposal. Under IFRS this amount remains in reserves and consequently the exceptional cost charged to the income statement is reduced by £7.9m.

#### b) Pensions

Pension and post-retirement benefits have been accounted for using the measurement and recognition requirements of SSAP 24 and disclosed under FRS 17.

IAS 19 takes a balance sheet approach to accounting for defined benefit pension schemes, similar to FRS 17. The deficit similar to that previously disclosed under FRS 17 is recognised on the balance sheet. Pension costs charged to the income statement are derived from actuarial assumptions reviewed annually at the beginning of the financial year. Where actual experience differs from the actuarial assumptions, gains and losses are reported through the statement of recognised income and expenditure.

Pension costs charged to the income statement in the six months ended 31 March 2005 was £383,000 lower under IAS 19 than under SSAP 24 and £378,000 in the year ended 30 September 2005. Of this £337,000 related to discontinued operations and was largely as a result of a curtailment gain caused by the disposal of the Metallised Paper and Converted Products divisions. The reduced pension cost charged to the income statement under IAS 19 resulted in an increase in the deferred tax charge of £34,000 in the six months ended 31 March 2005 and £71,000 in the year ended 30 September 2005.

Also charged to the income statement under IAS 19 are the funding costs associated with the assets and liabilities of the pension scheme. No such funding cost is reflected under UK GAAP. This resulted in an increase in the reported finance charge in the six months ended 31 March 2005 of £96,000 and £142,000 in the year ended 30 September 2005.

On transition, the pre-tax deficit of £13.1m has been recognised on the balance sheet and the SSAP 24 pension prepayment of £0.4m has been written-off. This is offset by the recognition of a deferred tax asset of £3.9m resulting in a total reduction in equity of £9.6m.

At 31 March 2005, the net adjustment to equity remained at a similar level to the transition date, the pension deficit having reduced slightly to £13.0 million. At 30 September 2005, the pre-tax pension deficit fell to £10.5m and the corresponding deferred tax asset was £3.2m. A prepayment of £0.9 million was written off in respect of SSAP 24.

#### c) Share options

Under IFRS, share options and other share based remuneration are expensed through the income statement based on their fair value at the date of grant to employees and spread over the vesting period taking into account the number of share options expected to vest.

The additional charge to the income statement as a result of IFRS is £30,000 and £87,000 in the six months ended 31 March 2005 and the year ended 30 September 2005 respectively.

#### d) Deferred tax

In addition to the deferred tax referred to under b) above, with respect to the pension adjustment, deferred tax liabilities recognised as a result of adopting IFRS total £180,000 and £275,000 at the transition date and 30 September 2005 respectively. This is mainly as a result of deferred taxation being recognised on the difference between the cost and the tax written down value of land and buildings. Under UK GAAP, the revaluation of land and buildings is ignored.

#### e) Holiday pay accrual

Under IAS 19, an accrual must be made for any employee holiday allowances which have accrued but not been used at the balance sheet date. UK GAAP does not contain any explicit guidance in this area. The value of unused holidays not reflected under UK GAAP at 1 October 2004 is £67,000 and remained largely unchanged at both 31 March 2005 and 30 September 2005.

#### f) Foreign exchange

Foreign exchange translation differences arising on consolidation were included in retained earnings under UK GAAP. These are disclosed under a separate foreign exchange reserve under IFRS. Since the date of transition to IFRS, cumulative foreign exchange translation differences posted to this reserve amount to a loss of £796,000 at 31 March 2005 and a profit of £439,000 at 30 September 2005.

#### g) Revaluation reserve

Under IFRS 1, fair value or revaluation of property, plant and equipment may be treated as deemed cost. At the date of transition to IFRS, £2.9m previously included in the revaluation reserve under UK GAAP, was transferred to retained earnings. Following the disposal of the Converted Products and Metallised Paper divisions, this was reduced to £1.9m.

## 10. TRANSITION TO IFRS (continued)

## 10.3 - Reconciliation of Net Income for six months ended 31 March 2005

		UK GAAP in IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Continuing operations</b>				
Revenue		52,445	–	52,445
Cost of sales		(41,116)	–	(41,116)
Gross profit		11,329	–	11,329
Other operating costs	i	(10,101)	220	(9,881)
<b>Operating profit before exceptional items</b>		1,228	220	1,448
<i>Exceptional items:</i>				
<i>Professional expenses incurred in respect of takeover approach</i>		(158)	–	(158)
<b>Operating profit from continuing operations</b>		1,070	220	1,290
Interest expense	ii	(787)	(96)	(883)
<b>Profit on continuing activities before taxation</b>		283	124	407
Taxation	iii	(38)	(34)	(72)
<b>Profit from continuing operations</b>		245	90	335
<b>Discontinued operations</b>				
Loss from discontinued operations	iv	(17,112)	8,254	(8,858)
<b>Loss for the period</b>		(16,867)	8,344	(8,523)
<b>Attributable to:</b>				
Profit attributable to minority equity interests		267	–	267
Loss attributable to ordinary shareholders		(17,134)	8,344	(8,790)
<b>Total loss for the period</b>		(16,867)	8,344	(8,523)
			Note (see 10.2 above)	£'000
<b>(i) Other operating costs</b>				
Reversal of goodwill amortisation			(a)	204
Lower pension cost under IAS 19 compared to SSAP 24			(b)	383
Recognition of charge on share options			(c)	(30)
Reclassification of reduction in pension cost to discontinued operations			(b)	(337)
				220
<b>(ii) Interest</b>				
Finance charge on pension fund			(b)	(96)
<b>(iii) Taxation</b>				
Movement through income statement of deferred tax on pension deficit			(b)	(34)
<b>(iv) Loss from discontinued operations</b>				
Reclassification of reduction in pension cost from continuing operations			(b)	337
Reversal of goodwill charge on disposal of discontinued operations			(a)	7,917
				8,254

## 10. TRANSITION TO IFRS (continued)

## 10.4 - Reconciliation of Net Income for year ended 30 September 2005

		UK GAAP in IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Continuing operations</b>				
Revenue		105,570	–	105,570
Cost of sales		(82,767)	–	(82,767)
Gross profit		22,803	–	22,803
Other operating costs	i	(19,939)	698	(19,241)
<b>Operating profit before exceptional items</b>		2,864	698	3,562
<i>Exceptional items:</i>				
Restructuring		(226)	–	(226)
Professional expenses incurred in respect of takeover approach		(204)	–	(204)
<b>Operating profit from continuing operations</b>		2,434	698	3,132
Interest expense	ii	(1,407)	(142)	(1,549)
<b>Profit on continuing activities before taxation</b>		1,027	556	1,583
Taxation	iii	(338)	(166)	(504)
<b>Profit from continuing operations</b>		689	390	1,079
<b>Discontinued operations</b>				
Loss from discontinued operations	iv	(18,066)	7,917	(10,149)
<b>Loss for the period</b>		(17,377)	8,307	(9,070)
<b>Attributable to:</b>				
Profit attributable to minority equity interests		574	–	574
Loss attributable to ordinary shareholders		(17,951)	8,307	(9,644)
<b>Total loss for the period</b>		(17,377)	8,307	(9,070)

		Note (see 10.2 above)	£'000
<b>(i) Other operating costs</b>			
Derecognition of goodwill amortisation		(a)	407
Lower pension cost under IAS 19 compared to SSAP 24		(b)	378
Recognition of charge on share options		(c)	(87)
			698
<b>(ii) Interest</b>			
Finance charge on pension fund		(b)	(142)
<b>(iii) Taxation</b>			
Movement through income statement of deferred tax on pension deficit		(b)	(71)
Other IFRS deferred tax adjustment		(d)	(95)
			(166)
<b>(iv) Loss from discontinued operations</b>			
Reversal of goodwill charge on disposal of discontinued operations		(a)	7,917

## 10. TRANSITION TO IFRS (continued)

## 10.5 - Reconciliation of Equity at 1 October 2004

	Note (see 10.2 above)	UK GAAP in IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property plant and equipment		38,579	–	38,579
Intangible assets		5,516	–	5,516
Investments		490	–	490
Deferred tax asset on defined benefit pension plan	b	–	3,930	3,930
		44,585	3,930	48,515
<b>Current assets</b>				
Inventories		16,957	–	16,957
Trade and other receivables	b	34,918	(413)	34,505
Cash and cash equivalents		11,719	–	11,719
		63,594	(413)	63,181
<b>Total assets</b>		108,179	3,517	111,696
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings		2,575	–	2,575
Trade and other payables	e	38,040	67	38,107
Current tax liabilities		636	–	636
Provisions		826	–	826
		42,077	67	42,144
<b>Non-current liabilities</b>				
Borrowings		19,679	–	19,679
Deferred tax liabilities	d	547	180	727
Other non-current liabilities		356	–	356
Provisions		126	–	126
Defined benefit pension plan deficit	b	–	13,099	13,099
		20,708	13,279	33,987
<b>Total liabilities</b>		62,785	13,346	76,131
<b>Net assets</b>		45,394	(9,829)	35,565
<b>Equity</b>				
Called up share capital		8,463	–	8,463
Share premium		–	–	–
Capital redemption reserve		549	–	549
Merger reserve		14,365	–	14,365
ESOP reserve		(2,513)	–	(2,513)
Revaluation reserve	g	2,886	(2,886)	–
Retained earnings		16,135	(6,943)	9,192
<b>Total shareholders' equity</b>		39,885	(9,829)	30,056
Minority interest in equity		5,509	–	5,509
<b>Total equity</b>		45,394	(9,829)	35,565

10. TRANSITION TO IFRS (continued)  
10.6 - Reconciliation of Equity at 31 March 2005

	Note (see 10.2 above)	UK GAAP in IFRS format £000	Effect of transition to IFRS £000	IFRS £000
<b>Assets</b>				
<b>Non-current assets</b>				
Property plant and equipment		28,210	–	28,210
Intangible assets	a	5,313	204	5,517
Deferred tax asset on defined benefit pension plan	b	–	3,896	3,896
		33,523	4,100	37,623
<b>Current assets</b>				
Inventories		13,372	–	13,372
Trade and other receivables	b	21,597	(280)	21,317
Cash and cash equivalents		7,839	–	7,839
		42,808	(280)	42,528
<b>Total assets</b>		76,331	3,820	80,151
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings		3,350	–	3,350
Trade and other payables	e	24,552	67	24,619
Current tax liabilities		267	–	267
Provisions		756	–	756
		28,925	67	28,992
<b>Non-current liabilities</b>				
Borrowings		10,897	–	10,897
Deferred tax liabilities	d	547	180	727
Other non-current liabilities		239	–	239
Provisions		126	–	126
Defined benefit pension plan deficit	b	–	12,988	12,988
		11,809	13,168	24,977
<b>Total liabilities</b>		40,734	13,235	53,969
<b>Net assets</b>		35,597	(9,415)	26,182
<b>Equity</b>				
Called up share capital		8,494	–	8,494
Share premium		51	–	51
Capital redemption reserve		549	–	549
ESOP reserve		(2,432)	–	(2,432)
Foreign exchange reserve	f	–	(796)	(796)
Revaluation reserve	g	1,866	(1,866)	–
Retained earnings		21,507	(6,753)	14,754
<b>Total shareholders' equity</b>		30,035	(9,415)	20,620
Minority interest in equity		5,562	–	5,562
<b>Total equity</b>		35,597	(9,415)	26,182

## 10. TRANSITION TO IFRS (continued)

## 10.7 - Reconciliation of Equity at 30 September 2005

	Note (see 10.2 above)	UK GAAP in IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property plant and equipment		28,692	–	28,692
Intangible assets	a	5,818	407	6,225
Deferred tax asset on defined benefit pension plan	b	–	3,151	3,151
		34,510	3,558	38,068
<b>Current assets</b>				
Inventories		12,869	–	12,869
Trade and other receivables	b	20,677	(853)	19,824
Cash and cash equivalents		10,396	–	10,396
		43,942	(853)	43,089
<b>Total assets</b>		<b>78,452</b>	<b>2,705</b>	<b>81,157</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings		2,102	–	2,102
Trade and other payables	e	23,239	67	23,306
Current tax liabilities		327	–	327
Provisions		593	–	593
		26,261	67	26,328
<b>Non-current liabilities</b>				
Borrowings		14,980	–	14,980
Deferred tax liabilities	d	665	275	940
Other non-current liabilities		109	–	109
Defined benefit pension plan deficit	b	–	10,503	10,503
		15,754	10,778	26,532
<b>Total liabilities</b>		<b>42,015</b>	<b>10,845</b>	<b>52,860</b>
<b>Net assets</b>		<b>36,437</b>	<b>(8,140)</b>	<b>28,297</b>
<b>Equity</b>				
Called up share capital		8,592	–	8,592
Share premium		211	–	211
Capital redemption reserve		549	–	549
ESOP reserve		(251)	–	(251)
Foreign exchange reserve	f	–	439	439
Revaluation reserve	g	1,866	(1,866)	–
Retained earnings		20,010	(6,713)	13,297
<b>Total shareholders' equity</b>		<b>30,977</b>	<b>(8,140)</b>	<b>22,837</b>
Minority interest in equity		5,460	–	5,460
<b>Total equity</b>		<b>36,437</b>	<b>(8,140)</b>	<b>28,297</b>

### Introduction

We have been instructed by the company to review the financial information for the six months ended 31 March 2006 which comprises Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Recognised Income and Expense, and the related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions.

It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2006.

Ernst & Young LLP  
100 Barbirolli Square  
Manchester M2 3EY  
1 June 2006

API Group plc

Second Avenue, Poynton Industrial Estate, Poynton,  
Stockport, Cheshire SK12 1ND

Tel: +44 (0) 1625 858700 Fax: +44 (0) 1625 858701 [www.apigroup.com](http://www.apigroup.com)